THE BRAZILIAN PENSION SYSTEM

2014, April

ABRAPP - Associação Brasileira das Entidades Fechadas de Previdência Complementar
Av. das Nações Unidas, 12551 - 20º andar - CEP 04578-903 - Brooklin Novo - São Paulo - SP
Tel.: (11) 3043.8777 - Fax: (11) 3043.8778/8780 - www.abrapp.org.br

I. Country Profile

The world's sixth wealthiest economy and the largest country in area and population in Latin America, Brazil is a top exporter of farm products and manufactured goods. Also, the discovery of major offshore oil reserves could propel the country into the top league of oil-exporting nations. Brazil's natural resources, particularly iron ore, are highly prized by major manufacturing nations, including China.

Governed by president Dilma Rousseff, the Portuguese-speaking nation has benefitted from stable economic growth and relatively low inflation rates. Nevertheless, Brazil experiences great regional differences and the richer South and Southeast regions enjoy much better indicators than the poorer North and Northeast. Still, poverty has fallen markedly. Brazil has managed to pull some 35 million people out of poverty since the mid-1990s. Besides economic improvements, key drivers of this have been well-focused social programs and a policy of real increases for the minimum wage.

The strong domestic market is less vulnerable to external crisis, which allowed Brazil to weather the global financial downturn with relatively minor impacts. The country was one of the last to fall into recession in 2008 and among the first to resume growth in 2009.

Environmentally speaking, there has been enormous progress in decreasing the deforestation of the rain forest and other sensitive biomes, but the country faces important development challenges in combining the benefits of agricultural growth, environmental protection and the sustainable development.

Brazil's Aids programme, in turn, has become a model for other developing countries. It has stabilized the rate of HIV infection and the number of Aids-related deaths has fallen. Brazil has bypassed the major drugs firms to produce cheaper, generic Aids medicines.

During the summer of 2013, a wave of protests swept Brazil as people took to the streets in cities throughout the country to demonstrate against corruption, inadequate public services and the expense of staging the 2014 World Cup.

Economy

Data from January suggest that 2014 started strong for the Brazilian Economy. Economic activity and retail sales rebounded and industrial production grew at the fastest pace in a year. However, in February, consumer confidence fell to the lowest level in nearly five years.

The Central Bank's Inflation Report from December indicates that it expects GDP to grow 2.3% in 2014. Market analysts expect the economy to expand 1.9% in 2014, which is down 0.2 percentage points from last month's estimate. For 2015, GDP is expected to grow at 2.1%.

BRAZIL – COUNTRY PROFILE	
Area	8.514,877 sq km
Population	202.656.788 (July 2014 est.)
Birth rate	14.72 births/1000 population (est. 2014)
Currency	Brazilian Real (BRL) / 1 BRL = US$ 2,30/€3,10 (04/11)
Life expectancy	73.28 years (population) - 69.73 (male), 77 (female)
Population growth rate	0.8% (2014 est.)
Labor force	107.1 million
Unemployment	5.5%
GDP (PPP)	$2.4 trillion
GDP real growth	0.9%
5-year compound annual growth	3.2%
Per capita	$11,875
Inflation (CPI)	5.4%
FDI Inflow	$65.3 billion

Source: CIA The World Fact Book

At its 2 April meeting, the Central Bank's Monetary Policy Committee (COPOM, Comite de Politica Monetaria) decided to raise the benchmark SELIC interest rate by 25 basis points to 11.00%, matching market expectations. The decision to push borrowing rates up came amid ongoing concerns over supply-side related inflationary pressures, especially stemming from higher food prices.

In February, the current account balance incurred a deficit of USD 7.4 billion. The print was slightly larger than the USD 6.6 billion shortfall registered in the same month last year. The trade balance registered a deficit of USD 2.1 billion in February, which was slightly greater than the USD 1.3 billion deficit registered in February 2013. The moving 12-month current account deficit widened slightly from USD 81.6 billion in January to USD 82.5 billion in February, representing approximately 3.7% of GDP.

In January, economic activity expanded 1.3% over the previous month in seasonally-adjusted terms according to the Central Bank's monthly indicator for economic activity (IBC-Br, Indice de Atividade Economica do Banco Central). The figure contrasted the 1.4% drop observed in December and marked the highest growth rate since June 2008. The result exceeded market expectations of a 0.9% increase.

Population Growth

Throughout Brazil's history, population growth has been rapid. Brazil is a country of young people. Today, 62% of Brazilians are aged 29 or under.

Brazil's population has been growing very rapidly, from 190.7 million in 2010 to 200.6 million in 2013. It's projected that its population will continue to rise longer than previous estimations as the country's middle class expands and lives longer. Projections indicate that Brazil's population will peak at 228.4 million by 2042 and finally stabilize around 218 million by 2060.

AGE STRUCTURE	
0-14 years	23.8%
15-24 years	16.5%
25-54 years	43.7%
55-64 years	7.6%
65 years and over	7.3% (2014 est.)

Source: CIA The World Fact Book

DEPENDENCY RATIOS	
Total dependency ratio	46.2 %
Youth dependency ratio	35.2 %
Elderly dependency ratio	11 %
Potential support ratio	9.1 (2013)

Source: CIA The World Fact Book

The country's growth is in many ways hampered by the large number of Brazilian women entering the workforce and choosing to wait longer to have children. The birth rate has dropped a great deal since the 1970's, when women had an average of 4 children or more. Today, the birth rate is 1.77 births per woman, which is lower than the U.S. rate. It's estimated this rate will fall to 1.5 by 2034 and remain at that level through 2060.

Life expectancy has also grown in Brazil to 71.3 years for men and 78.5 years for women. It's estimated both men and women will live longer than 80 years on average by 2041, which means Brazil will also be dealing with an aging population before long, with greater demands on pensions and health care.

II. The Brazilian Pension System

The Brazilian pension system is structured in three pillars:

- A public, mandatory, pay-as-you-go (PAYG) system known as General Social Security Regime (RGPS);
- The Pension Regimes for Government Workers (RPPS);
- The Private Pension Regime (RPC) - Occupational and Individual plans.

Since the late 1990s, Brazil's three-pillar pension model that has been subject to a series of ongoing reforms. The need for such reforms stemmed primarily from unbalances that placed heavy pressure on the governmental budget. The pension schemes for civil servants and private sector workers were amended in two rounds. Amongst other reforms, benefits were reduced and limited to a monthly ceiling and vesting periods were implemented, which has curbed some of the excesses of the system. Despite these reforms, the government only partly succeeded in ensuring long-term financial stability of the system, which forced Brazil to enact further changes.

In fact, Brazil is a young country with a Social Security bill of an old one. Its expenses on pensions range at 9.1% of the Gross Domestic Product (GDP), possibly reaching 16.8% in 2050 according to a recent study by the Inter-American Development Bank. This is due to the country's quick aging process and elevated replacement rates provided by the system (approximately 75% of average income) which, combined with early retirement options, tends to be unsustainable in the long run.

In contrast with other Latin American countries, Brazil has not replaced the basic public PAYG system by a mandatory private pension scheme, but pursued reforms oriented to strengthen the redistributive role of the first pillar and to gradually develop the complementary private pension system, offering an alternative for medium and high income workers to preserve their life's standard after retirement.

1) First Pillar

General Social Security Regime
(*Regime Geral de Previdência Social - RGPS*)

Managed by the National Social Security Institute (INSS), the Social Security General Regime is a public, mandatory and pay-as-you-go (PAYG) scheme that pays Defined Benefit pensions for private sector employed workers as well as self-employed professionals and elected civil servants.

The monthly salary ceiling for RGPS benefit calculations is R$ 4.390,24 (US$1.908,00 per month) and the replacement ratio is relatively high for individuals earning less than the salary ceiling. It is financed through payroll taxes (shared by the employer and the employee), revenues from sales taxes and federal transfers that cover shortfalls of the system.

Private-sector employees are entitled to retire with a full pension at age 65 for men and 60 for women living in urban areas if they have a contribution record of at least 15 years. However, the retirement age is considerably lower, with men able to draw down their full pension after 35 years of contributions, and women after 30 years, irrespective of the retiree's age. It means that men can receive a full benefit at age 55, and women at 50. Proportional benefits are also available for those who choose to retire early. Survivors' benefits have no age limits. Families inherit pensions in their entirety.

In addition to several pension modalities, the Brazilian General Regime provides a broad spectrum of coverage, which includes several benefits such as paid maternity leave benefits, sickness benefits, unemployment insurance and disability pension, among others.

A key element of the RGPS is the strong redistribution towards the poor elderly. The pension system is based on the concept of solidarity, meaning that those who are now employed support those who have reached retirement age. Different programmes are non-contributory and provide means-tested pensions amounting to the minimum wage, which are achieved by exemptions from contributions and reduced contribution rates for low-wage earners and certain sectors.

Rural workers aged over 60 and poor citizens over 65, for instance, are eligible for a pension of R$ 724 or approximately US$315 - the Brazilian minimum wage - without having contributed to the system. But the welfare system costs around 2% of GDP annually. Most of the spending is a result of early retirement and high benefits.

The health system, in turn, is also public, free and of universal access, although somewhat inefficient. For this reason, all of those who can afford opt to pay for additional private health insurance.

2) Second Pillar

Pension Regimes for Government Workers
(*Regimes Próprios de Previdência Social - RPPS*)

Public-sector employees are under specific pension provisions. Although the eligibility criterion is the same for all government workers, there are over 2400 specific pension regimes managed by the Federal government, States and Municipalities with specific financing rules (which are jointly coordinated by the Ministry of Social Security). In general, these pension plans are financed on a pay-as-you-go basis with the employee paying a percentage of their salary. The percentage varies depending on the public entity.

In 2003, the government promoted a comprehensive adjustment in the PAYG parameters (age limit, replacement rates, retiree's contribution) for current workers and the convergence of rules for private and public sectors that have come into force for the future generations of civil servants. Now, 10 years of work within the government are required to qualify for a pension, whereas there was no vesting period before. The pension benefit formula was also changed from a final salary scheme to one that takes into account the best salaries from positions the member held for at least five years.

To be entitled to a full public-sector pension benefit, the statutory retirement age is 60 for men and 55 for women (members who joined the system from 2003 on). Those who were already employed in the public sector are subject to more lenient eligibility requirements with men entitled to the pension at the age of 53 and women at the age of 48.

Compared to the private-sector scheme benefits, public-sector employees receive higher pensions in exchange of lower contribution rates. The national armed forces and similar groups at state level also have differentiated, career-basis scheme that is mostly financed by general budget.

- ✓ **Funpresp**

In 2012, an important step toward the sustainability of the system was taken by the Brazilian Government: the establishment of the Complementary Fund for Civil Workers – Funpresp. The measure aims at regulating the pension reform approved in 2003, which sought to bring together the pension schemes of the public and private sectors. According to specialists, Funpresp it is the first step towards 'fixing' the Brazilian Social Security Regime, considered by many as one of the most generous on the planet. "We absolutely have the most generous system in the world. The economy of Brazil is very different from Greece's. But in terms of retirement rules, we are worse", says Fabio Giambiagi, an economist at the Brazilian National Development Bank.

The new law required the government to set up the Complementary Pension Foundation for Federal Public Servants (Fundação de Previdência Complementar do Servidor Público Federal or Funpresp) with one fund for each branch of the government: executive, legislative, and judicial. Previc, the regulatory agency for private pension plans, oversees Funpresp.

Under the reform, new government employees are no longer entitled to a pension equal to their last salaries and are now subject to a benefit ceiling equal to the RGPS, or the General Social Security System, currently at R$ 4.390,24 (US$1.908,00 per month). In addition, they will have a complementary DC pension made up of voluntary contributions.

In order to receive a higher benefit, an employee has to contribute to Funpresp and can choose what percentage of income to contribute each year. The employer (government agency) provides a matching contribution of up to 8.5 per cent of an employee's earnings. At retirement, a worker will receive an annuity based on the account balance in Funpresp.

The new scheme will also tighten the rules on benefits to widowed spouses. A third element is that this new federal legislation paves the way for similar changes in the pension schemes run by regional governments. All of these rules are cost savers for the public sector in the long term and some important Brazilian states such as Sao Paolo have already set up their own complementary pension funds for public employees.

While the fiscal impact of Funpresp is very positive in the long run, there are transition costs making the initial impact negative on the government's coffers. A study published in 2008 indicated that the budgetary impact from the establishment and implementation of the Funpresp is negative in the first twenty years or so. The net average cost adds to 0.1% of GDP per year, owing to (1) lower social security revenues, as new entrants‟ contributions (to the old system), (2) higher federal expenditures related to the government's contributions to the Funpresp (equaling the ones made by each civil servant).

However, from the third decade onwards, the government shall start to reap the benefits of the reform, with lower pension outlays outdoing transition costs as the amount of workers in the new regime starts to gain share in the total pool of public workers.

INTER AMERICAN DEVELOPMENT BANK MODEL

Before the Establishment of Funpresp

Complementary Pensions Regime (occupational and individual plans)	**2nd Pilar**
General Social Security Regime Pension Regimes for Government Workers (basic coverage)	1st Pillar

Brazilian Model after Funpresp

Individual plans	**3rd Pillar**
Complementary Pensions Regime (occupational plans)	2nd Pillar
RGPS RPPS (Basic Coverage)	1st Pillar

With about 40% of federal workers likely to become eligible for retirement in the latter part of the decade, the timing couldn't be better for passing this project, specialists claim, as it could accelerate the transition towards this new system.

The new regulation will also pave the way for large (privately run) pension funds, seeking for long-term investment and bringing positive externalities for the local capital markets (and for the whole economy). In addition, more balanced social security costs (in terms of benefits for private and public sector workers) could favor income distribution.

2) Third Pillar

The Complementary Pension Regime
(*Regime de Previdência Complementar – RPC*)

The Latin American country has a young and growing Private Pension System (third pillar) in which pension funds operate in a highly regulated environment and in accordance with the best practices available. Such environment has enabled Brazilian entities, as opposed to most pension entities overseas that are still recovering from the severe economic crisis, to keep a good investment track and assets under management in continuous growth.

Under the Private Pension Regime, both occupational and personal pensions are provided on a voluntary basis. There are two pension vehicles available to manage private benefits: closed pension funds (also known as Closed Entities) and insurance companies (Open Entities). The types of pension plan offered by the latter are not necessarily linked to employment, since open pension entities offer their services to employers, employees, the self-employed and even unemployed individuals. This approach to pension provision is mostly chosen by small and medium-sized employers and offered to their employees. Compared to closed pension entities, this type of pension provision can have disadvantages in the form of less flexibility in making investment decisions, higher fees and less administrative control.

The regulatory environment for open and closed private pension entities is quite different. The National Superintendence of Complementary Pensions (Previc), linked to the Ministry of Social Security, supervises closed funds in regards to, amongst other areas, governance, disclosure, investments and fees. The National Board of Complementary Pensions (CNPC), in turn, makes the main regulatory decisions. The supervision of open private pension entities, on the other hand, is carried out by the Superintendence of Private Insurance (Susep), which is linked to the Ministry of Finance. The National Board of Private Insurance is in charge of setting the relevant regulations.

The role of Pension Funds

While most of the Latin American private pension industry has been developed after the Chilean pension reform in 1981, the first Brazilian regulations were issued in 1977. Since 2001, new Law and regulations have been issued so as to promote the dynamism of the market and incorporate international standards, best practices and innovations.

Brazilian closed private pension entities are non-profit organizations that can be established on a single-employer or multi-employer basis and by labor unions and class associations. The accumulated assets are legally segregated from the sponsoring undertaking and submitted to specific accounting, financing and actuarial regulations. Historically, the industry has grown based on the employment ties in State owned, large multinational companies following the Bismarckian tradition, but soon private enterprises also began to offer benefit plans to its employees.

Since 2003, some innovations have been implemented so as to extend the coverage to other groups, including small and medium enterprises, labor unions, professional associations and civil servants. In that year, discretionary vesting promises were also replaced with a statutory vesting period of three years and the portability of assets between pension plans was improved. The evolution of the Brazilian Closed Pension System may be summarized as follows:

	1970's	1980's Legal Consolidation	1990's Big Threats	2003-2013 Government Priority
Pension Funds	118	244	360	324*
Sponsors	500	1000	2.333	3.008
Unions, Associations and Class Entities	-	-	-	490
Participants (millions)	1,18	1,71	1,63	2.4**
Retirees (millions)	-	0.13	0.38	0.72**
Investments (billions)	US$ 3.7	US$ 12.1	US$ 66.5	US$ 286***
%PIB	1.4%	2.3%	13.6%	13.8%***

* Sep/2013; ** Jun/2013; ***Dec/2013

By the end of 2013 there were 324 pension funds covering 6.724.130 people (active participants, retirees and beneficiaries). Closed entities accounted for 13.8% of GDP, with assets under management totaling approximately US$ 286 billion. Pension funds offer defined benefit plans, defined contribution plans or mixed arrangements, which are DC plans with some ingredients of defined benefit provision like the *cash balance plans*, *floor benefit plans* and *target benefit plans*. Most plans also offer risk benefits such as disability pension, death benefits and so on.

Type of Sponsorship	Pension Funds *	%	Sponsors*	%	Investments US$ million	%	Participants	%	Dependents	%	Retirees	%
Instituidor	20	6,2%	490	16,29%	1.000	0,4%	122.294	5,2%	220.656	6,0%	1.120	0,2%
Private	221	68,2%	2.149	71,44%	94.901	34,7%	1.519.599	64,3%	1.790.440	48,9%	309.045	43,9%
Public	83	25,6%	369	12,27%	177.393	64,9%	720.574	30,5%	1.646.963	45,0%	393.439	55,9%
Total	**324**	**100,0%**	**3.008**	**100,0%**	**273.294**	**100,0%**	**2.362.467**	**100,0%**	**3.658.059**	**100,0%**	**703.604**	**100,0%**

Source: * PREVIC - Quarterly Statistical - Sep/13; ABRAPP - Investiments - Dec/13; Population - Jun/13

The funds sponsored by labor unions and professional associations, in turn, can only manage Defined Contribution plans. In occupational schemes, the accumulated funds in individual accounts are portable under certain conditions and withdrawals are allowed upon retirement and termination of employment or associative tie.

Retirement Plans by Type

Type of Plan	Plans	%	Investments (%)	Population* (%)
Defined Benefit	334	30,61%	73,39%	42%
Defined Contribution	406	37,21%	9,40%	23%
Variable Contribution	351	32,17%	17,22%	36%
Total	**1.091**	**100%**	**100%**	**100%**

Source: PREVIC – Quarterly Statistical – Sep/13; *PREVIC – Activity Report – Dec/12

Supervision and Regulation

Established in 2009, the National Superintendence of Pension Funds (Previc) is the supervisory agency of Brazilian pension funds. Before that, such responsibility belonged to the National Secretariat of Pension Funds (SPC), which was subordinated to the Social Security Ministry.

The new agency is semi-autonomous, administered by a board, and has its own budget financed mainly through levies paid by the pension funds based on the assets under management. Such levies are to be calculated on a sliding scale, based on the size of the actuarial reserves of each plan. Previc's organizational structure also comprises an ombudsman and a *corregedoria*, a department in charge of policing compliance with internal processes, as well as the Complementary Pensions Chamber of Appeals (Camara de Recursos da Previdência Complementar - CRPC). Such bodies are composed by representatives from pension fund entities, plan sponsors, plan participants and the government.

The Board of Directors comprises the superintendent and four other directors, all of which chosen amongst professionals of good reputation and recognized competencies, identified by the Minister of State for

Social Security and approved by the President of the Republic. Directors are forbidden from participating in any professional or political activity that would conflict with their responsibilities.

The "formulation of policies" is an attribution of the SPPC (Secretariat of Complementary Pensions Policies) a body subordinated to the Social Security Ministry.

The regulation of the pension system is an attribution of the National Regulatory Board for Complementary Pensions (Conselho Nacional de Previdência Complementar - CNPC). It is chaired by the Social Security Minister and composed by representatives from Previc, SPPC, the Office of the Presidency of the Republic, Planning, Finance and Budget Ministries, pension funds, sponsors, participants and beneficiaries.

Tax treatment of contributions and benefits

In general, contributions to private pension plans are tax-deductible up to certain limits for both the employee and the employer. New legislation passed in 2001 focused on making complementary pensions more attractive and terminated the Special Taxation Regime as of 2005. In contrast to the old legislation, the 20% withholding tax on pension fund investment returns was removed, which has generated higher net returns and lowered costs for defined benefit schemes. Pension benefits are taxed as ordinary income. The model allows for the adoption of a regressive regime which limits taxation to 10% of the retirement income for participants who remain in the plan for at least ten years.

Investment Regulation

In view of the country's more stable economic environment and declining interest rates, where exposure to greater risks is increasingly crucial for pension funds to reach their profitability goals and obtain higher returns, a distinct – and more dynamic – investment approach from pension entities is vital.

In such context, the Brazilian Monetary Council (*Conselho Monetario Nacional* - CMN) enacted Resolution n. 3.792/2009, which sets forth a new regulatory framework to govern the investments performed by the foundations, allowing them to invest more aggressively in several asset classes, yet keeping the criteria of transparency, control and supervision. The main asset classes are and its quantitative limits are the following:

(i) Government bonds - 100%;

(ii) Debentures and states and municipalities bonds 80%;

(iii) Variable Income - 70%

(iv) Structured investments - 20%;

(v) Foreign investments - 10%

(vi) Real estate - 8%

(vii) Hedge Funds - 10%

(viii) Infrastructure - 20%

(ix) Loans to participants - 15%

(x) Multi-assets funds - 10%

Brazilian pension funds' investment portfolio is allocated as follows:

Type of Investment	dec/13	%
Fixed Income	**165.076**	**60,4**
Public Bond	28.786	10,5
Private Loans and Deposits	11.384	4,2
SPE	79	0,0
Fixed Income Fund [1]	124.827	45,7
Variable Income	**79.281**	**29,0**
Stocks	35.943	13,2
Variable Income Fund [2]	43.338	15,9
Structured Investments	**8.261**	**3,0**
Emerging Companies	147	0,1
Participations	7.178	2,6
Real Estate Fund [3]	935	0,3
Investments Abroad	**177**	**0,1**
Stocks	10	0,0
Foreign Debt	166	0,1
Real Estate	**12.372**	**4,5**
Operations with Participants	**7.380**	**2,7**
Participant Loan	6.694	2,4
Real Estate Loan	685	0,3
Others	**748**	**0,3**
Total	**273.294**	**100**

Notes: [1] Includes Short-Term, Referenced, Fixed Income, Multimarket, Exchange and FIDC (Investment Fund in Credit Rights); [2] Includes Stocks and Market Index; [3] Until 2009 consolidated in the group Real Estate

Solvency

In order to ensure the solvency of private pension plans, the Brazilian regulator issued Resolution n. 26/2008, which sets forth the criteria for distributing surpluses and addressing funding gaps in pension plans. The countercyclical norm aims at protecting the interests of members and beneficiaries, since it would not be advisable to distribute momentary surpluses based on cyclical outcomes. Instead, the norm seeks to enforce, in a conservative and prudential way, economic (interest rates) and demographic (longevity) assumptions.

In case of overfunding, the aforementioned Resolution mandates: (i) the establishment of a contingency reserve (buffer) of 25% of present and future plan obligations so as to safeguard the payment of benefits in face of market fluctuations; (ii) the adoption of AT-2000 mortality table with a 10% smoothing - which is more conservative than the widely used AT-83 table; (iii) the adoption of the regressive discount rate starting from 6% (2012) and consecutive reductions of 0.25% per year until it reaches 4.5% in 2018 minus 1 p.p in relation to the applicable rate of a given year, and; (iv) the absence of debts within the pension plan. Finally, the fund's investments must also be in accordance with the quantitative limits set forth in the applicable regulation. The values exceeding the contingency reserve will make up the special reserve, which may be distributed through the freezing of contributions for plan members, beneficiaries and sponsoring company.

Only upon the observation of these requirement will the plan be able to be reviewed and rebalanced, taking into consideration the proportion of contributions on the part of members, beneficiaries and sponsors. Such review must be approved by the absolute majority of members of the fund's governing body and the following steps must be observed in the order in which they appear: (i) reduction or freezing of contributions, (ii) benefit increases, and (iii) surplus distribution to members, beneficiaries and sponsors.

In the case of surplus distribution for members and beneficiaries, the steps below must be strictly observed: (i) the plan must be closed to new members; (ii) the plan must solvent, that is, it must not require future contributions; (iii) a thorough internal auditing process must be carried out so as to assess the status of assets and liabilities, including judicial disputes; (iv) the distribution of surplus must be previously approved by the supervisory body, and (v) it should be made in at least 36 monthly installments.

In case of underfunding, the CNPC Resolution n. 13, from November 2013, has brought some changes on the parameters set forth by the previous CGPC Resolution. Pension funds are now required to immediately set up a recovery plan when the underfunding corresponds to more than 10% of the plan's assets under management. In the case of deficits equal or less than 10%, the fund is granted up to three years to solve the problem. The procedures, in this case, are as follows: contribution increases, decrease in the future value of benefits and additional contributions. In February 2014, the regulatory board decided to increase the limit that requires immediate remedial action, which is now the case of deficits corresponding to 15% of the plan's assets. However, this measure applies to the 2013 exercise year only. The limit of a 10% underfunding remains unchanged for the previous calendar years.

Valuation of assets and liabilities

The Brazilian supervisory body (Previc) requires benefit plans to have appropriate valuation models in place either internally or via external service providers. The valuation method must follow the best practices in the financial market and be based on the fair value of assets, taking also into consideration the pension plan type.

The actuarial valuations shall be based in biometric, demographic, economic and financial assumptions, which must be suitable to the pension plan, its member and beneficiary profile, the economic environment and the applicable legislation, as well as the business activity carried out by the sponsoring employer.

The maximum discount rate set forth by regulation is presently at 5.75% per year (minus inflation), but it shall be gradually reduced until it reaches 4.5% in 2018. The downward movement was necessary to reflect the low interest rate environment in the domestic market.

Accounting

Brazilian pension fund managers and authorities have long discussed the convergence of international and national accounting standards for the sake of comparability. Amongst the international standards in place (IFRS) the most relevant for Brazilian entities is the IAS 26, which comprises accounting and the quality of information made available for members and beneficiaries.

According to Complementary Law n. 109/2001, the accounting of Brazilian pension funds must be made in respect to each pension plan managed by the pension fund, with due segregation of guaranteeing resources and obligations between different schemes.

About Abrapp

The Brazilian National Association of Pension Funds is a not-for-profit organization, which represents common interests of pension funds. Its organizational structure is composed by local managements, study centers and technical commissions in local and national levels, thus providing a favorable environment to the exchange of experiences and members' participation.

Abrapp's mission is to promote the development of Brazilian pension fund market and fostering technical excellence. The association maintains a productive and effective dialog with authorities, the most important entities of the Brazilian market, as well as academic institutions.

The market, in turn, recognizes Abrapp as a center of technical excellence and a reference in terms professional development through the courses and seminars it promotes. Abrapp also has seats in the boards of some of the main institutions of the Brazilian Market:

- **ANBIMA (Brazilian Association of Finance and Capital Markets):** Regulatory and Best Practices Council, Ethical and Operational Committee;
- **ABRASCA (Brazilian Association of Publicly Traded Companies):** Committee of Control and Dissemination of Important Information;
- **BM&FBOVESPA (the Brazilian Stock Exchange):** Stock Market Master Plan Executive Committee, Listing Committee, Real Estate Market Advisory Chamber, ISE - Business Sustainability Index;
- **IBMEC (Brazilian Institute of Capital Markets):** Leading Council;
- **IBGC (Brazilian Institute of Corporate Governance):** Certification Program for Pension Fund Advisors Advisory Board;
- **IBRACON (Brazilian Institute of Independent Auditors):** Working Party on Pension Funds;
- **IBRI (Brazilian Institute of Investors Relationship):** Advisory Body.